



JOHN NAIMO
ACTING AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

June 25, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Acting Auditor-Controller

SUBJECT: **CHILD SUPPORT SERVICES DEPARTMENT – PROCUREMENT REVIEW**

In August 2007, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Child Support Services Department's (CSSD or Department) compliance with County procurement policies and procedures.

Our review covered Fiscal Years (FY) 2011-12 and 2012-13, and included areas such as capital and non-capital equipment, warehousing/inventory, and purchasing and payment controls.

Summary of Findings

We noted that CSSD successfully obtains the goods and services necessary to operate the Department. However, CSSD management needs to ensure the Department complies with all County requirements. The following are examples of areas for improvement:

- CSSD needs to immediately complete a physical inventory of their capital and non-capital equipment and investigate discrepancies. We noted that for six (38%) of the 16 capital assets reviewed, and for ten (21%) of the 48 non-capital assets reviewed, the Department's equipment lists were not accurate. Some of the inaccuracies included mailroom equipment on hand that CSSD reported as

lost in 2008, and six non-capital assets (e.g., desktop computers, scanners, etc.) that the Department could not locate at the time of our review.

CSSD's attached response indicates that the Department has completed a physical inventory of all capital and non-capital equipment, and investigated and resolved inventory discrepancies.

- CSSD needs to review their capital equipment inventory and dispose of obsolete or no longer used equipment. During our review, we identified 26 assets (i.e., computer servers, professional Betacam filming equipment, etc.), with a total acquisition cost of \$220,000, that do not appear to be used or needed. The Department indicated that some of these assets had not been used in over nine years.

CSSD's attached response indicates that the Department has taken steps to review capital assets, evaluate their usefulness, and dispose of obsolete or unnecessary capital equipment.

- CSSD needs to maintain sign-out/sign-in equipment logs and equipment lists that identify the assigned user for each non-capital asset as required by the County Fiscal Manual (CFM) Section 6.8.2. In addition, the Department needs to ensure non-capital equipment is inventoried annually, that there is follow-up to locate missing equipment, and that their inventory is documented. We noted that CSSD could not provide any equipment logs that identified the assigned users, and that documentation to support completion of physical inventories was missing or incomplete.

CSSD's attached response indicates that the Department will require non-capital custodians to sign acknowledgement forms annually to document the assignment, and will maintain a current list of all non-capital equipment at each location. Subsequent to receipt of the response letter, the Department indicated that they completed their 2013 inventory.

- CSSD needs to complete Fixed Asset Disposition (FAD) documents at the time they dispose of capital assets. We noted that for three (50%) of the six FAD documents reviewed, the Department completed the FAD documents an average of three years after disposal of the asset. As a result, CSSD's capital equipment was overstated by up to \$334,000.

CSSD's attached response indicates that the Department will ensure that staff complete a FAD document for capital equipment at the time of disposal.

- CSSD needs to immediately complete a physical inventory of all supplies and adjust records to indicate the correct quantities and unit prices. We reviewed 20

different types of supplies (5,991 units) and noted that the Department could not locate 1,537 (26%) units and misstated the price for 1,824 (30%) units, resulting in inventory overstatements totaling \$38,000.

CSSD's attached response indicates that the Department has completed a physical inventory of all supplies and will take steps to ensure that the correct unit prices are recorded in the electronic Countywide Accounting and Purchasing System.

- CSSD needs to monitor supply inventories for slow-moving, obsolete, and over/understocked items, and establish reasonable inventory guidelines. We noted that 262 different supplies, totaling \$103,600, had not been used in over a year, and identified 75 instances, totaling \$9,800, where the Department purchased more of the unused supplies. We also noted that 2,416 (86%) of the 2,824 types of supplies reported in CSSD's inventory records were not within the minimum and maximum stock levels the Department established for each item.

CSSD's attached response indicates that the Department has taken corrective action by consolidating stockrooms and implementing a new inventory system to manage supplies more efficiently.

- CSSD needs to ensure that Department staff prepare and managers approve requisitions before purchases are made. We noted that for 11 (44%) of the 25 purchases reviewed, totaling \$112,400, CSSD placed the order without an approved requisition. Specifically, for nine purchases the Department did not obtain the minimum number of approvals on the requisition, and for two purchases staff placed the order before the requisitions were prepared and approved.

CSSD's attached response indicates that the Department has taken corrective action by modifying their Procurement Tracking System to require two pre-approvals for all requisitions.

- CSSD needs to adhere to requirements of CFM 4.4.5 regarding assignment of credit cards to individuals and maintaining cards in a secure location. We noted that seven (88%) of the eight credit cards were assigned to vehicles instead of individuals, and that six (75%) cards were not kept in a secure location. Specifically, the Department kept the six credit cards in an unlocked drawer that was accessible to multiple employees.

CSSD's attached response indicates that the Department destroyed all credit cards assigned to vehicles and issued new credit cards to individual employees who are responsible for keeping their assigned credit cards in a secure location.

Although this report is a review of CSSD's procurement operations, we recommend that other County departments review the findings in this report and ensure that necessary controls are in place.

Details of these and other findings and recommendations are included in Attachment I.

Review of Report

We discussed the results of our review with CSSD management. The Department's response (Attachment II) indicates general agreement with our findings and recommendations, and that they have already implemented many of the recommendations in our report.

We thank CSSD management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Steven J. Golightly, Director, Child Support Services Department
Jim Jones, Director, Internal Services Department
All Department Heads
Audit Committee
Public Information Office

CHILD SUPPORT SERVICES DEPARTMENT PROCUREMENT REVIEW

Background and Scope

Child Support Services Department's (CSSD or Department) Fiscal Services Division (FSD) and Facilities Management Division (FMD) have primary responsibility for the Department's procurement functions. FSD, which includes Procurement and Accounts Payable, is responsible for ordering goods/services and approving payments. FMD is responsible for receiving ordered supplies/equipment, tracking supply inventories, controlling equipment, and disposing of surplus items. The Information Technology Division (ITD) assists FMD by tracking the Department's computer equipment such as laptops and servers. CSSD's Fiscal Year (FY) 2013-14 services and supplies budget is approximately \$22.6 million.

We reviewed CSSD's procurement practices for compliance with County and Departmental policies and procedures. Our review included interviewing CSSD personnel, evaluating capital and non-capital equipment controls, inventorying a sample of supplies and equipment, observing supply warehouse and stockroom operations, and evaluating purchasing and payment controls.

CAPITAL AND NON-CAPITAL EQUIPMENT

Capital equipment includes assets costing more than \$5,000 with a useful life of more than one year. Departments are required to track capital equipment in the County's electronic Countywide Accounting and Purchasing System (eCAPS). As of June 30, 2013, eCAPS records indicated that CSSD's capital equipment had a total acquisition cost of approximately \$1.6 million.

Non-capital equipment includes items costing less than \$5,000 that can be easily carried or moved (e.g., laptop computers, etc.). Departments are required to track non-capital equipment, but are not required to keep a record of its total cost.

Capital Equipment

County Fiscal Manual (CFM) Section 6.1.3 requires departments to maintain an accurate list of all capital equipment. In addition, CFM Sections 6.10.2 and 6.9.2 require departments to ensure that large amounts of surplus equipment is not accumulated, and to file a Report of Equipment Loss form with each Board Office, the Executive Officer of the Board, and the Auditor-Controller's (A-C) Capital Assets Unit annually.

We reviewed CSSD's controls over capital equipment and noted the following:

- **Inaccurate eCAPS Equipment Lists** – We noted that for six (38%) of the 16 capital assets reviewed, the Department's capital asset list was not accurate.

Specifically, we identified three assets that were not reported in eCAPS, including a piece of mailroom equipment on hand that CSSD reported as lost in 2008, which should have been detected in subsequent inventories. In addition, for three (19%) assets, the County property tag/serial number was missing or did not match the eCAPS list.

CSSD also maintains an internal list to track technology equipment and to help reconcile the Department's physical inventory. We noted that 15 (17%) of the 89 assets on the Department's internal technology list did not match what the Department reported in eCAPS. Specifically, we noted that eight assets were not reported in eCAPS, three assets had the wrong property tag number in eCAPS, and four assets that were indicated as salvaged/disposed of, were reported as active in eCAPS. In addition, the internal list indicated that three assets were not in operation, but management indicated that they are currently in use.

- **Excess/Unused Equipment** – During our review, we identified 26 assets (i.e., computer servers, professional Betacam filming equipment, etc.), with a total acquisition cost of \$220,000, that appear to be obsolete and no longer used or needed. CSSD management indicated that the Department had not used many of these assets in over nine years.
- **Unfiled Report of Equipment Loss Forms** – CSSD did not complete and submit the Report of Equipment Loss forms from FY 2007-08 through FY 2011-12 as required by the CFM.

While we noted the Department completed physical inventories of capital assets as required, based on the issues above, Department management needs to more closely review the accuracy of their inventory process and results.

Recommendations

Child Support Services Department management:

1. **Ensure physical inventories of capital assets are complete and accurate.**
2. **Immediately complete a physical inventory of all capital equipment, investigate any discrepancies, adjust records to match physical inventory counts, and maintain accurate capital equipment lists.**
3. **Review all capital assets on hand, evaluate usefulness, and dispose of obsolete or no longer needed capital equipment.**
4. **File the Report of Equipment Loss form with each Board Office, the Executive Officer of the Board, and the Auditor-Controller's Capital Assets Unit annually, as required.**

Non-Capital Equipment

CSSD maintains their non-capital equipment through two divisions; ITD maintains all computer equipment (e.g., laptops, monitors, printers, etc.), and FMD maintains all other non-capital equipment (e.g., shredders, copiers, FAX machines, etc.).

Non-Capital Equipment Controls

CFM Section 6.8.2 requires departments to maintain a sign-out/sign-in log at each location for permanently assigned equipment and requires location managers to maintain a current list of all equipment assigned to their location. The sign-out logs and the equipment lists should both identify the name of the user and a description of the equipment assigned to the user. In addition, departments are required to physically inventory non-capital equipment annually, retain inventory documentation, and reconcile the physical inventory to the department's master list of non-capital equipment.

We reviewed controls over CSSD's non-capital equipment, and noted the following:

- **Undocumented Equipment Assignments** – The Department does not maintain sign-out/sign-in logs for permanently assigned equipment, and the Department's non-capital equipment list does not identify to whom the equipment is assigned. In addition, for all five locations reviewed, we noted that managers did not maintain a list of all non-capital equipment assigned to their location.
- **Inaccurate Departmental Equipment Lists** – For ten (21%) of the 48 non-capital assets reviewed, CSSD's non-capital equipment list was not accurate. Specifically, the Department could not locate six items (e.g., monitors, laptops, etc.) on the equipment list, did not include three items (e.g., desktops, scanners, etc.) on the list, and reported the incorrect location for one item. Subsequent to our review, the Department located three of the six missing items.
- **Undocumented Physical Inventory** – CSSD could not provide complete inventory documentation for non-capital equipment. For computer equipment, management indicated that staff match physical inventory to the equipment list. However, ITD did not document these reviews and did not reconcile the inventory to their master list. As a result, the Department could not detect and follow up on missing equipment. For all other non-capital equipment, FMD did not identify the person(s) performing the inventory or when the inventory was performed.

Recommendations**Child Support Services Department management:**

- 5. Ensure that equipment sign-out/sign-in logs are maintained at each location, equipment lists identify the assigned user for each non-capital asset, and that location managers keep a current list of all non-capital equipment assigned to their location.**
- 6. Immediately complete a physical inventory of non-capital equipment, investigate any discrepancies, adjust records to match physical inventory counts, and maintain accurate non-capital equipment lists.**
- 7. Ensure annual physical inventories are conducted and properly documented.**

Non-Capital Equipment Loans

CFM 6.8.2 states that unassigned non-capital equipment may be maintained for loan to various employees as needed. CSSD loans unassigned laptops to staff/managers on a temporary basis to conduct business. When laptops are loaned, a loan form is completed indicating the borrower's name, the serial number of the laptop, and the loan date.

We noted eight (80%) of the ten loan forms reviewed did not match information reported on the Department's internal equipment list. For example, the loan form indicated a laptop was assigned to staff in May 2007, but the equipment list indicated that the laptop was not acquired until June 2008. Department management subsequently stated that both dates were incorrect.

CSSD management should ensure that loan forms are accurate and that the equipment list is updated when laptops are borrowed/returned, and periodically review loan forms and the equipment list for accuracy/completeness.

Recommendation

- 8. Child Support Services Department management ensure loan forms are accurate and the equipment list is updated when laptops are borrowed/returned, and periodically review loan forms and the equipment list for accuracy/completeness.**

Equipment Disposal

The Internal Services Department's (ISD) Surplus Procedures require departments to complete an Application for Authority to Dispose of Surplus Property (AADSP) form before disposing of surplus (e.g., excess, obsolete, salvage, etc.) equipment, and to

retain the form at least five years for tracking and audit purposes. The AADSP should identify individual equipment whenever possible, and departments should ensure that surplus equipment is not kept for more than one year. In addition, CFM Section 6.10.3 states that Departments must complete a Fixed Asset Disposition (FAD) document to remove disposed capital equipment from their inventory.

We reviewed 20 assets reported on the Department's equipment list and inventory list as disposed to determine if AADSP forms were prepared. We noted that for seven (35%) of the 20 assets we reviewed, the Department could not locate the AADSP forms. This may be partially due to the Department not always identifying equipment serial numbers on the forms. We also noted that for two (10%) assets, the Department did not dispose of the assets within one year. On average, these assets were disposed of 20 months after being marked for disposal.

In addition, for three (50%) of the six FAD documents reviewed, the Department did not complete the FAD document when the equipment was disposed. Specifically, the Department completed the FAD document an average of three years after the disposal and, as a result, overstated their capital equipment during those three years by up to \$334,000.

Recommendations

Child Support Services Department management:

- 9. Ensure that individual surplus equipment is identified on the Application for Authority to Dispose of Surplus Property form, and that surplus equipment is not kept for more than a year.**
- 10. Ensure staff complete a Fixed Asset Disposition document for capital equipment at the time of disposal.**

WAREHOUSING/INVENTORY

At the time of our review, CSSD maintained supply warehouses at nine locations. CSSD uses eCAPS to track and maintain their inventory records and, as of December 2012, the Department reported inventory totaling approximately \$258,000.

Inventory Accuracy

CFM Section 5.2.6 requires departments to maintain perpetual inventory records and ensure that inventory records are accurate by recording additions and deletions as they occur.

We noted that CSSD's perpetual inventory records were not accurate. We performed a physical inventory of 20 different types of supplies (5,991 units), totaling \$76,800, at two warehouses and noted the following:

- The Department could not locate 1,537 (26%) units of office supplies, such as paper and toner. As a result, CSSD overstated their inventories by \$27,100.
- The Department misstated the unit price in eCAPS for 1,824 units (30%) by applying the total box price to individual items. For example, the Department's inventory records indicate that markers cost \$12.60 each, but the actual cost was \$1.05. As a result, CSSD overstated their inventories by \$10,900.

In addition, we reviewed 19 different types of supplies located in the two warehouses, and noted that for four (21%) supplies, totaling approximately \$3,200, the Department did not establish and record them in eCAPS.

Recommendations

Child Support Services Department management:

- 11. Complete a physical inventory of supplies and adjust inventory records to indicate the correct quantities and unit prices.**
- 12. Ensure staff keep accurate inventory records by recording additions and deletions as they occur.**

Inventory Monitoring/Controls

CFM Sections 5.2.3 and 5.2.6 state that departments should monitor supply inventory for slow moving, obsolete, and over/understocked items, and ensure that supplies are only ordered when needed. In 2011, CSSD established specific minimum/maximum stock levels in eCAPS for individual supply items (e.g., binders, tape, toner cartridges, etc.) at each of their warehouses. A warehouse manager at each location should monitor their supply inventory levels to ensure that items on-hand are within the established Departmental stock levels.

We reviewed CSSD's inventory records and noted the following:

- **Unused and Overstocked Supply Inventories** – We noted the Department had 262 different supplies, valued at \$103,600, that had not been used in over a year. However, for the year reviewed, we noted 75 supply orders, where the Department spent an additional \$9,800 for more of these unused supplies. In addition, we reviewed seven types of perishable supplies (72 units), such as toner and printer cartridges, and noted that all 72 (100%) units, totaling \$8,300, were an average of three years beyond the expiration date.
- **Below/Above Supply Stock Levels** – We noted that 2,416 (86%) of the 2,824 different supplies were not within the minimum and maximum stock levels the Department established for each item. Specifically, 1,933 (68%) were below the minimum and 483 (17%) different supplies were above the maximum stock

levels. Based on our analysis of stock turnover, the inventory minimum/maximum stock levels the department established in eCAPS did not accurately reflect actual usage.

- **Inefficient Supply Locations** – We noted that 43 (41%) of the 104 ink/toner/printer cartridges reviewed, totaling \$7,200, were not compatible with printers at the locations where they were warehoused. As a result, locations must purchase additional supplies for items available at other warehouses, or unnecessarily transport supplies to locations where they can be used.

Recommendations

Child Support Services Department management:

13. **Ensure warehouse staff monitor supply inventories for slow moving, obsolete, and over/under stocked items, and only order supplies when needed.**
14. **Establish appropriate inventory stock levels in the electronic Countywide Accounting and Purchasing System and ensure that staff maintain supplies within these stock levels.**
15. **Ensure that supplies are warehoused at a location where they can be used.**

Annual Physical Inventory

Supply Inventory Differences

CFM Section 5.3.2 requires departments to conduct a physical inventory of supplies, and compare the results to their inventory records. Departments should investigate discrepancies and adjust inventory records to match the physical counts.

We noted that CSSD does not research discrepancies in the physical counts to identify the cause of each variance, and does not adjust the inventory records to match the physical counts. In addition, eCAPS identifies CSSD as having ten warehouses, however, the Department actually has nine. The Department indicated that they closed one warehouse, but did not record the closure in eCAPS.

Recommendations

Child Support Services Department management:

16. **Investigate the reason(s) for discrepancies between inventory records and the annual physical inventory counts, implement corrective action**

as necessary, and adjust inventory records to match the physical counts.

17. **Update the electronic Countywide Accounting and Purchasing System to delete the closed warehouse.**

Inventory Controls

CFM Section 5.3.2 requires supervisors to sign and date physical inventory documentation to indicate their review, and use two-person count teams with no supply, procurement, or warehouse responsibilities, to complete the counts. We reviewed CSSD's annual physical inventories for their nine warehouses and noted the following:

- Three (33%) inventory documents were not signed and dated by a supervisor.
- One (11%) inventory was not conducted with a two-person count team.
- One (11%) inventory was conducted by an employee with procurement and/or warehouse responsibilities.

Recommendation

18. **Child Support Services Department management ensure that supervisors sign and date annual physical inventory documentation to indicate their review, and that two-person count teams, with no supply, procurement, or warehouse responsibilities, complete the physical inventory counts.**

Inventory Transactions

CFM Sections 5.2.3 through 5.2.6 require departments to obtain appropriate approval for all inventory transactions (purchases, issuances, and adjustments) and to ensure that the functions of approving inventory transactions, maintaining inventory custody, and record-keeping responsibilities are adequately separated. In addition, the Department should enter transactions accurately, and retain documentation for at least five years.

We reviewed 40 inventory transactions and noted the following:

- For 12 (30%) transactions, the Department did not obtain appropriate approval. Specifically, individuals with inventory custody and/or record-keeping responsibilities approved seven transactions, and the remaining five transactions did not have a signed approval.
- For nine (23%) transactions, the items and/or quantities did not match items/quantities reported in eCAPS.

- For five (13%) transactions, the Department could not provide documentation (e.g., "Inventory Stock Adjustment Record" and "Stock Requisition and Material Issue" forms) to support that the transactions were entered correctly.

Recommendation

19. **Child Support Services Department management ensure that appropriate approval is obtained for inventory transactions, that staff record transactions accurately, and that transaction documents are retained for at least five years.**

Management Oversight

As indicated above, we noted a number of significant deficiencies in the Department's internal controls over equipment and supply inventories, such as inaccurate equipment records, misstated inventory, etc. It appears these weaknesses may be due in part to insufficient management oversight and inadequate training for staff/managers that oversee the Department's equipment and supply inventories.

To maintain proper accountability and security over the Department's equipment and supply inventories, CSSD management should increase the level of management oversight over equipment and supply inventories. Management should also provide training on County equipment and inventory policies and procedures where necessary, and monitor for compliance.

Recommendation

20. **Child Support Services Department management increase the level of management oversight over equipment and supply inventories. Management should also provide training on County equipment and inventory policies and procedures where necessary, and monitor for compliance.**

GENERAL PURCHASING AND PAYMENT CONTROLS

CSSD's Procurement Unit is responsible for reviewing requisitions and obtaining price quotes. The Accounts Payable Unit reviews all purchasing documentation to ensure orders are received and appropriately invoiced, follows up on outstanding invoices, and reviews invoices for accuracy and compares them to purchase orders and receiving reports before authorizing payments.

CFM Section 4.4.2 requires at least two approvals before ordering services and supplies, and CFM Section 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice.

We noted that for 11 (44%) of the 25 purchases reviewed, totaling \$112,400, CSSD placed the order without a properly pre-approved requisition. Specifically, for nine purchases, the Department only obtained one approval, and for two purchases staff placed the order before the requisitions were prepared and approved. In addition, for one purchase, totaling \$61,800, CSSD did not pay the vendor within 30 days resulting in a lost discount of \$600. CSSD management should ensure that Department staff prepare, and managers approve, requisitions before purchases are made, and that vendors are paid within 30 days of receiving the invoice.

Recommendations

Child Support Services Department management:

- 21. Ensure that Departmental staff prepare, and managers approve, requisitions before purchases are made.**
- 22. Ensure vendors are paid within 30 days of receiving the invoice.**

Non-Agreement Purchases

ISD granted CSSD delegated authority to purchase non-agreement items under \$10,000. CSSD can make purchases under \$1,500 without price quotes, and is required to obtain three price quotes for non-agreement purchases between \$1,500 and \$10,000, unless the item is only available from one vendor and could not be easily substituted (sole source purchases). In addition, CFM Section 4.4.2 and ISD training guidelines state that departments should obtain three bids for non-agreement training purchases over \$2,500, and use a Purchase Order for Training (POTR) document for non-agreement training purchases within the Department's delegated authority.

We reviewed ten non-agreement purchases and noted two (20%) purchases totaling \$9,600, where CSSD did not obtain the required price quotes, and one (10%) purchase totaling \$2,300, where CSSD processed a purchase as sole source that did not qualify because the item could have been easily substituted and was available from other vendors. In addition, we noted that CSSD does not obtain three bids or use a POTR, that would require the Department to document training purchase bid information.

Recommendations

Child Support Services Department management:

- 23. Ensure that price quotes are obtained as required by County purchasing policies, and only make sole source purchases that meet established criteria.**
- 24. Ensure staff comply with County and Internal Services Department guidelines for bidding and purchasing training services.**

Credit Cards

CSSD has eight credit cards issued under the State's "Voyager Card" program. Employees assigned a Voyager Card may purchase fuel at designated gas stations. CFM Section 4.4.5 states that credit cards must be assigned to individual cardholders, and that cardholders must sign an agreement acknowledging receipt and responsibility for the cards and ensure that credit cards are adequately secured.

We reviewed card issuance documents for all eight credit cards and noted that the Department assigned seven (88%) of the credit cards to vehicles instead of individuals. In addition, the Department maintained incomplete cardholder agreements since the agreements did not indicate an assigned credit card number. We also noted that six (75%) credit cards were not adequately secured. Specifically, the Department kept the credit cards in an unlocked drawer that was accessible to multiple employees.

Recommendation

- 25. Child Support Services Department management ensure that credit cards are assigned to individuals, complete cardholder agreements are maintained for each cardholder, and credit cards are adequately secured.**

Revolving Funds

A revolving fund is a predetermined amount of money kept on hand to make change for small purchases and other uses. CSSD has a \$5,000 revolving fund that they use for small purchases (petty cash).

CFM Section 1.6.3 states that revolving fund custodians must sign a Statement of Responsibility (SOR) form, updated at least annually or whenever fund custodians change. In addition, CFM Sections 1.6.4 and 1.6.6 require that each petty cash revolving fund be equal to approximately one month's expenses.

We reviewed CSSD's revolving fund assignment, and noted that the Department could not provide a current SOR form for the assignment. We also noted that CSSD did not regularly analyze their revolving fund activity to determine the appropriate amount. As noted earlier, CSSD has a \$5,000 revolving fund, but spends an average of less than \$600 a month from the fund.

Recommendations

Child Support Services Department management:

- 26. Require revolving fund custodians to sign an annual Statement of Responsibility form.**

- 27. Analyze the revolving fund's activity to determine the appropriate fund amount and work with the Auditor-Controller to adjust the fund balance as required.**

eCAPS Security

eCAPS allows authorized departmental personnel to initiate and approve transactions online, such as purchases and payments. The CFM specifies that each eCAPS user's access needs to be based upon the type of transaction (e.g., requisitions, payments, etc.) each user's duties entail. Departments should periodically review each eCAPS user's access for applicability to their current duties and appropriate separation of duties, to reduce the risk of abuse.

We noted CSSD does not periodically review each eCAPS user's access, and CSSD allowed staff to be assigned incompatible eCAPS security roles. Specifically, we reviewed CSSD's eCAPS user list and noted:

- Five users could approve requisitions, payments, and/or purchases, which is prohibited by CFM Section 4.4.2.
- Four users could enter/approve purchases and enter inventory data, which is prohibited by CFM Section 4.1.3.
- Three users could encumber funds and approve payments, which is prohibited by CFM Section 4.1.8.

Recommendation

- 28. Child Support Services Department management modify current electronic Countywide Accounting and Purchasing System access as necessary to eliminate roles that are not in compliance with County policies, and develop procedures to periodically review the electronic Countywide Accounting and Purchasing System user lists to ensure continued compliance.**

eCAPS Pending/Rejected Transactions

If eCAPS cannot process a transaction due to missing information, approvals, etc., the System changes the status of the transactions to a pending/rejected. Departments are required to review their pending/rejected transactions, and correct the errors so the transactions can be processed.

At the time of our review, CSSD had 313 transactions in pending/rejected status. We noted 133 (42%) of the pending/rejected transactions were between 31 days and six months old, and 120 (38%) of the pending/rejected transactions were more than six

months old. We also noted the Department had not investigated the reasons for the delays.

Recommendation

- 29. Child Support Services Department management periodically review the electronic Countywide Accounting and Purchasing System for pending/rejected transactions to identify and resolve transactions that have been pending/rejected for extended periods of time.**

INTERNAL CONTROL CERTIFICATION PROGRAM

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues noted in CSSD's procurement operations should have been identified when CSSD completed their ICCP. CSSD management should ensure that ICCP questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

- 30. Child Support Services Department management ensure that Internal Control Certification Program questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.**



County of Los Angeles
Child Support Services Department



STEVEN J. GOLIGHTLY, Ph.D.
Director

DAVID KILGORE
Chief Deputy Director

February 21, 2014

To: Wendy L. Watanabe
Auditor-Controller

From: Steven J. Golightly, Ph.D.
Director

A handwritten signature in blue ink, which appears to read "Steven J. Golightly", is written over the printed name and title.

Subject: **CHILD SUPPORT SERVICES DEPARTMENT'S RESPONSE TO
AUDITOR-CONTROLLER'S PROCUREMENT REVIEW**

Attached is the Child Support Services Department's response to the thirty (30) recommendations contained in the Auditor-Controller's procurement review. Overall, we found this review to be extremely beneficial in that it gave us the opportunity to identify gaps in our procurement practices. We have addressed those gaps and as a result have a more robust procurement operation.

We appreciate the opportunity to include our response in your report and thank your staff for their professionalism in conducting their review of our operation.

Please let me know if you have any questions.

EXECUTIVE OFFICES

5770 S. Eastern Avenue • Commerce, CA 90040 • (323) 889-3400

*"To enrich our community by providing child support services
in an efficient, effective and professional manner, one family at a time"*

**CHILD SUPPORT SERVICES DEPARTMENT'S RESPONSE TO
AUDITOR-CONTROLLER'S PROCUREMENT REVIEW**

CAPITAL AND NON-CAPITAL EQUIPMENT:

Recommendations:

Capital Equipment:

Child Support Services Department (CSSD) management:

- 1. Ensure physical inventories of capital assets are complete and accurate.**
CSSD Response: We agree and are now in compliance. A physical inventory was completed on July 2013 and discrepancies were investigated and addressed, as needed, to match physical inventory counts. In addition, we are in the process of purchasing a new barcode RFID inventory system to ensure timely, efficient, and accurate inventories.
- 2. Immediately complete a physical inventory of all capital equipment, investigate any discrepancies, adjust records to match physical inventory counts, and maintain accurate capital equipment listings.**
CSSD Response: Please see response #1.
- 3. Review all capital assets on hand; evaluate usefulness, and dispose of obsolete or no longer needed capital equipment.**
CSSD Response: We agree and have taken corrective action. We have taken steps to review all capital assets, evaluate their usefulness, and dispose of obsolete or no longer needed capital equipment based on our analysis.
- 4. File the Report of Equipment Loss form with each Board Supervisor, the Executive Officer of the Board, and the Auditor-Controller's Capital Asset Unit annually, as required.**
CSSD Response: We agree and have taken corrective action. All relevant staff has been made aware that a Report of Equipment Loss form must be filed annually even when no equipment has been lost.

Non-capital Equipment:

CSSD management:

- 5. Ensure that equipment sign-out/sign-in logs are maintained at each location, equipment lists identify the assigned user for each non-capital asset, and that location managers keep a current listing of all non-capital equipment assigned to their location.**
CSSD Response: We agree and non-capital equipment, both IT and otherwise, will be assigned to the Division Chief at each location and the Division Chief will be required to sign an acknowledgment form annually, documenting this assignment and will be required to maintain a current listing of all non-capital assets at that location. We believe this should be sufficient control for maintaining non-capital assets for our department since personal computers including towers (not laptops) are located at each desk throughout the department and remain stationary regardless of which staff are assigned to each work space. Laptops will be permanently assigned to individuals who will sign an acknowledgement form when they receive the asset.

- 6. Immediately complete a physical inventory of non-capital equipment, investigate any discrepancies, adjust records to match physical inventory counts, and maintain accurate non-capital equipment listings.**

CSSD Response: We agree and are now in compliance. A physical inventory of non-capital assets except IT items was conducted and documented in December 2012. We are currently performing the 2013 inventory. We are in the process of purchasing a new barcode RFID inventory system to ensure timely, efficient, and accurate inventories.

- 7. Ensure physical inventories are conducted and properly documented annually.**

CSSD Response: Please see response #6.

Non-Capital Equipment Loans:

- 8. CSSD management ensure loan forms are accurate and the equipment list is updated when laptops are borrowed or returned, and periodically review loan forms and the equipment list for accuracy/completeness.**

CSSD Response: We agree and have taken corrective action. We have ensured that loan forms are accurate and the equipment list is updated when laptops are borrowed or returned. Additionally, we put in place procedures to periodically review loan forms and the equipment lists for accuracy and completeness.

Equipment Disposal:

CSSD Management:

- 9. Ensure that individual surplus equipment is identified on the Application for Authority to Dispose Surplus Property form whenever possible, and that surplus equipment is not kept for more than a year.**

CSSD Response: We agree and have taken corrective action. We will ensure that the item is specifically identified on the Application for Authority to Dispose Surplus Property form whenever possible, and that surplus equipment is not kept for more than a year. In addition, we established a workgroup, comprised of key personnel, tasked with developing internal procedures to ensure full compliance with the County Fiscal Manual (CFM).

- 10. Ensure staff complete a Fixed Asset Disposition document for capital equipment at the time of disposal.**

CSSD Response: We agree and have taken corrective action. We will ensure that staff complete a Fixed Asset Disposition document for capital equipment at the time of disposal.

WAREHOUSING/INVENTORY:

Recommendations:

Inventory Accuracy:

CSSD management:

- 11. Complete a physical inventory of supplies and adjust inventory records to indicate the correct quantities and unit prices.**

CSSD Response: We agree and have taken corrective action. We made an accurate accounting of all supplies during the annual physical inventory in July 2013 and consolidated seven of the nine stockrooms into one central location, which will make it easier to maintain

controls. We will take steps to ensure that the correct unit prices are recorded in eCAPS. Additionally, we will ensure that non-stock items are maintained in a separate location from stock room items and will determine if they should be appropriately disposed of if they are slow moving or obsolete.

12.Ensure staff keep accurate inventory records by recording additions and deletions as they occur.

CSSD Response: We agree and have taken corrective action.

Inventory Monitoring/Controls:

CSSD management:

13.Ensure warehouse staff monitor supply inventories for slow moving, obsolete, and over/under stocked items, and only order supplies when needed.

CSSD Response: We agree and have taken corrective action. Our new inventory system combined with our decision to consolidate stockrooms will make it easier to manage supplies in a more efficient manner.

14.Establish appropriate inventory guidelines in the electronic Countywide Accounting and Purchasing System and use the guidelines to monitor inventory.

CSSD Response: We agree and are implementing.

15.Ensure that supplies are warehoused at a location where they can be used.

CSSD Response: Please see response #13.

Annual Physical Inventory:

Supply Inventory Differences:

CSSD management:

16.Investigate the reason(s) for discrepancies between inventory records and the annual physical inventory counts, implement corrective action as necessary, and adjust inventory records to match the physical counts.

CSSD Response: We agree and are now in compliance. We made an accurate accounting of all supplies during the annual physical inventory in July 2013 and investigated discrepancies.

17.Update the electronic Countywide Accounting and Purchasing System to delete the closed warehouse.

CSSD Response: We agree. Subsequent to the audit, our several attempts to close the warehouse have been unsuccessful. The eCAPS team is working with us to resolve this issue.

Inventory Controls:

18.CSSD management ensure that supervisors sign and date annual physical inventory documentation to indicate their review, and that two-person count teams, with no supply, procurement or warehouse responsibilities, complete the physical inventory counts.

CSSD Response: We agree with this response and have taken corrective action. Individuals performing the physical inventory will not have receiving, supply custody or inventory recordkeeping responsibilities. We consolidated stockrooms. Physical counts are now stored on the shared drive for easy retrieval. Tally sheets will be signed and dated by the supervisor.

Inventory Transactions:

- 19. CSSD management ensure that appropriate approval is obtained for inventory transactions, that staff record transactions accurately, and that transaction documents are retained for at least five years.**

CSSD Response: We agree and have taken corrective action. IAN transactions will not be approved by individuals with inventory custody or record keeping responsibilities and the internal stock request form has been revised to require both a printed name and a signature. We have implemented a "Non-stock" stamp that is used on request forms to designate non-stock items that are left over from various operational pilot programs.

Management Oversight:

- 20. CSSD management increase the level of management oversight over equipment and supply inventories. Management should also provide training on County equipment and inventory policies and procedures where necessary, and monitor for compliance.**

CSSD Response: We agree and have taken corrective action. We established a workgroup, comprised of key personnel, tasked with developing internal procedures to ensure full compliance with the CFM. Individuals performing the physical inventory will not have receiving, supply custody or inventory recordkeeping responsibilities. We consolidated stockrooms. All physical counts are now stored on the shared drive for easy retrieval. Tally sheets will be signed and dated by the supervisor.

GENERAL PURCHASING AND PAYMENT CONTROLS:

Recommendations

CSSD management:

- 21. Ensure that Departmental staff prepare, and managers approve requisitions before purchases are made.**

CSSD Response: We agree and have taken corrective action. The Procurement Tracking System (PTS) was modified to require two approvals for all requisitions regardless of dollar amount and to allow for the processing of emergency requisitions during year-end shut-down.

- 22. Ensure vendors are paid within 30 days of receiving the invoice.**

CSSD Response: We agree and have taken corrective action.

Non-Agreement Purchases:

CSSD management:

- 23. Ensure that price quotes are obtained as required by County purchasing policies, and only make sole source purchases that meet established criteria.**

CSSD Response: We agree and have taken corrective action. Procurement buyers have been instructed to continue to obtain a minimum of three actual price quotes on all non-agreement purchases and that a vendor's failure to carry a particular item does not qualify as a "no bid". We will continue to ensure that all sole source purchases are qualified and be adequately documented for all future purchases.

24. Ensure staff comply with County and Internal Services Department guidelines for bidding and purchasing training services.

CSSD Response: We agree and have taken corrective action. We reinforced the ISD purchasing policies, and required all procurement buyers to re-take the ISD Procurement 101 Training. Appropriate staff has been re-trained on the purchase order procurement process.

Credit Cards:

25. CSSD management ensure that credit cards are assigned to individuals, complete cardholder agreements are maintained for each cardholder, and credit cards are adequately secured.

CSSD Response: We agree and are now in compliance. In February 2013 all Voyager Credit Cards that were assigned to vehicles were inactivated and destroyed. New cards were issued to individual employees. All credit cards are now assigned to individual employees and are secured by the assigned employee. CSSD has always maintained and will continue to maintain a signed "Fuel Procurement Card (Voyager) Program Employee Acknowledgement Agreement" form for all credit card users and now includes card numbers.

Revolving Funds:

CSSD management:

26. Require revolving fund custodians to sign an annual Statement of Responsibility.

CSSD Response: We agree and are now in compliance. A Statement of Responsibility for the revolving fund was signed on 10/3/13.

27. Analyze the revolving fund's activity to determine the appropriate fund amount and work with the Auditor-Controller to adjust the fund balance as required.

CSSD Response: CSSD agrees and is analyzing the fund's activity and considering lowering the fund amount.

eCAPS Security:

28. CSSD management modify current electronic Countywide Accounting and Purchasing System access as necessary to eliminate roles that are not in compliance with County policies, and develop procedures to periodically review the electronic Countywide Accounting and Purchasing System user lists to ensure continued compliance.

CSSD Response: We agree and have taken corrective action. We reviewed all security access roles, eliminated any roles that did not comply with County policies, and developed procedures to periodically review the user list to ensure continued compliance. Exemptions will be requested where needed if staffing levels make it difficult to comply with existing policy.

eCAPS Pending/Rejected Transactions:

- 29. CSSD management periodically review the electronic Countywide Accounting and Purchasing System pending/rejected files to identify and resolve transactions that have been pending/rejected for extended periods of time.**

CSSD Response: We agree and have taken corrective action. Wherever possible the old transactions have been removed from the system. The suspense report will now be reviewed on a weekly basis.

INTERNAL CONTROL CERTIFICATION PROGRAM

Recommendation

- 30. CSSD management ensure that Internal Control Certification Program questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is develop to address each weakness.**

CSSD Response: We agree and have taken corrective action. We created a new unit within the Fiscal Division to monitor Internal Controls for the department. This unit will ensure that Internal Control Certification Program questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed and implemented addressing each weakness.